

HARDING CARPETS LIMITED
54th ANNUAL REPORT OCTOBER 31, 1981



MANUFACTURING AND DISTRIBUTION

Manufacturing Facilities

Brantford and Collingwood, Ontario
and Drummondville, Quebec

Harding Operated Distribution Centres

Vancouver

- 4616 Canada Way
North Burnaby, B.C. V5G 1K7

Calgary

- 1008 55th Avenue N.E.
Calgary, Alberta T2E 6Y4

DIRECTORS

William T. Bodenhamer

President and Chief Operating Officer
Harding Carpets Limited

Kah K. Chong

Executive Vice-President
Harding Carpets Limited

Anthony F. Griffiths

Vice-Chairman
Harding Carpets Limited

C. Malim Harding, O.B.E.

Former Chairman of the Board
Harding Carpets Limited

James H. Laing

Sr. Vice-President,
Distribution Sales
Harding Carpets Limited

Heon H. Loy

Chairman and Chief Executive Officer
Harding Carpets Limited

J. Donald Mingay, D.S.O., M.B.E.

Chairman
Rous, Mann & Brigden Ltd.

Louis M. Silverstein

Partner
Silverstein & Selznick

William H. Young

President
The Hamilton Group Limited

Winnipeg

- 1555 Inkster Blvd.
Winnipeg, Manitoba T2G 1R2

Toronto

- 35 Worcester Road
Rexdale, Ontario M9W 1K9

Montreal

- 7850 Trans Canada Highway
St. Laurent, Quebec H4T 1A5

Moncton

- 1220 St. George Blvd.
Moncton, N.B. E1C 8R9

OFFICERS

Heon H. Loy

Chairman of the Board

Anthony F. Griffiths

Vice-Chairman

William T. Bodenhamer

President and Chief Operating Officer

Kah K. Chong

Executive Vice-President

James H. Laing

Sr. Vice-President, Distribution Sales

Edward W. duDomaine

Vice-President,
Corporate Sales

Zafer Khan

Vice-President, Administration
and Systems

Edward G. Lampman

Vice-President, Finance

Eddie N. Lutterloh

Vice-President, Manufacturing

Robert S.K. Song

Vice-President, Corporate Planning

Colin K. Thompson

Vice-President, Personnel and
Industrial Relations

Albert F. Klinkhammer

Secretary-Treasurer

Venture Carpets of Canada Limited

Rene L. Germain, C.A.

Executive Vice-President and
General Manager

OFFICES

Head Office

85 Morrell Street,
Brantford, Ontario N3T 5R3

Executive and Marketing Offices

35 Worcester Road,
Rexdale, Ontario M9W 1K9

Venture Carpets of Canada Ltd.

1600 Janelle Street
Drummondville, Quebec J2B 6V6

Australian Representative's Office

42-44 Chandos Street
St. Leonards, N.S.W. 2065

Stock Exchange Listing

The Toronto Stock Exchange

Transfer Agent and Registrar

Montreal Trust Company
Toronto, Montreal, Regina,
Calgary and Vancouver

Bankers

The Royal Bank of Canada
The Toronto-Dominion Bank

Shareholders' Auditors

Price Waterhouse & Co.

The Annual and Special General Meeting of the holders of Class C and Class D Voting shares will be held on Thursday, April 22, 1982 at the Executive Offices of the Corporation located at 35 Worcester Road, Rexdale, Ontario at 10:30 a.m. A Special General Meeting of the holders of Class A and Class B shares will follow at 11:00 a.m.

On peut obtenir un exemplaire en français de la lettre que le Président du Conseil et le Président ont adressée aux actionnaires en écrivant au Secrétaire de la Compagnie.

COVER

Unforgettable, is Harding's newest addition to the Fashion Gallery Collection. Constructed of 100% Antron III Nylon, it is styled in today's most popular fine topped saxony velour finish and is available in 15 of our most beautiful colours.

HIGHLIGHTS

	For the Year ended October 31, 1981	For the Year ended October 31, 1980
Sales	\$100,877,579	\$87,932,151
Income (Loss) before Preference Dividends and Extraordinary Item	1,458,299	(257,077)
Preference Dividends and Extraordinary Item:		
Preference Dividends	1,253,649	1,031,016
Gain on sale of property, less related taxes	845,449	69,142
Net Income (Loss) for the Year	1,050,099	(1,218,951)
Per Share	\$.20	\$ (.24)
As a percentage of sales	1.0%	(1.4)%
As a percentage of capital employed ¹	4.4%	(1.6)%
As a percentage of shareholders' equity ²	5.8%	(6.3)%
Capital Expenditures	990,174	1,237,738
Working Capital	26,112,140	24,272,749
Ratio of current assets to current liabilities	2.1 to 1	2.1 to 1
Shares Outstanding		
Class A and Class B	3,570,870	3,550,920
Class C and Class D	1,612,472	1,612,472
Number of shareholders, 98% Canadian (1980 – 98%)	2,455	2,696
Number of employees (average)	1,249	1,333

¹ Net income as related to capital employed represents earnings adjusted for the net cost of interest on long-term debt and is calculated on total assets less current liabilities at beginning of year.

² Shareholders' equity at beginning of year.

THE COMPANY

Harding Carpets Limited is the largest manufacturer of carpets in Canada, supplying retailers and the contract market from its own distribution centres and also through independent distributors. Products are marketed under two brand names – Harding Carpets and Venture Carpets. Fully integrated, the Company spins, heat-sets and processes a complete range of carpet yarns.

Tufting, dyeing and finishing carpet is performed at three manufacturing plants. Harding's capability places it among the largest carpet producers in North America, and its designers and engineers utilize the latest in spinning and colour technology. Their results are seen in domestic and commercial use across Canada and as well in countries to which Harding exports.

REPORT TO SHAREHOLDERS: The Year in Review.

After three years of operating losses, we report profitable operations for the fiscal year ended October 31, 1981. Net income for the year of \$204,650 before extraordinary items compares to a loss of \$1,288,093 last year. After extraordinary items the net income for the current year was \$1,050,099 whereas the Company sustained a loss of \$1,218,951 in the prior year.

Sales of \$100,877,579 represent an increase of 14.7% over the prior year. Price increases and higher sales mix accounted for the improvement as square yardage shipments were lower than last year.

The short fall in yardage occurred in the export market place which was extremely competitive and very price sensitive. Domestically, the Company's shipments, in terms of square yards, remained the same as last year compared to a 9% increase by the Canadian carpet industry. A strike at our Drummondville plant during the year combined with the Company's reluctance to accept unprofitable sales during the severe downturn in the market place hampered the Company from increasing its sales volume in 1981.

Gross profits from operations increased from 18.4% to 21.2% this year. The Company's ability to implement price increases as raw material and manufacturing costs increased permitted normal gross profits, while also realizing additional profits on inventory produced prior to cost increases.

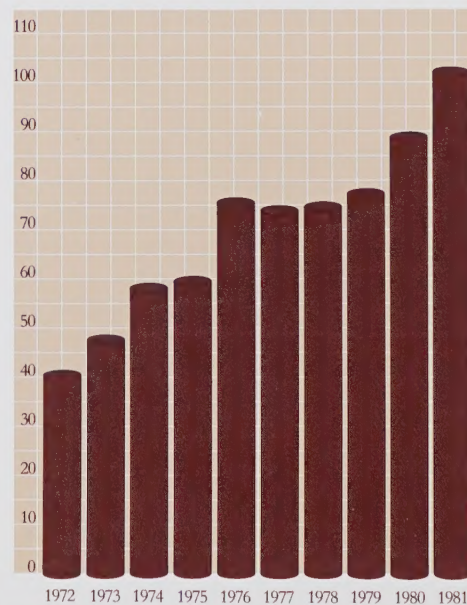
Unprecedented high interest rates, combined with increased borrowings to finance the inflationary impact on accounts receivable and inventories, increased "other interest" costs and preference share dividends considerably over last year.

The extraordinary profit of \$845,449 arose primarily from the sale of the Calgary warehouse. A new warehouse more suited to current needs was constructed and leased to the company as of July 1, 1981.

Since the close of the fiscal year on October 31, 1981 a number of significant changes within the Company have taken place. For the period from November 2, 1981 to January 29, 1982 A.F. Griffiths, Vice-Chairman of the Company, acted as interim President. During this period a number of cost reduction programs were initiated and the reorganization of the management structure implemented.

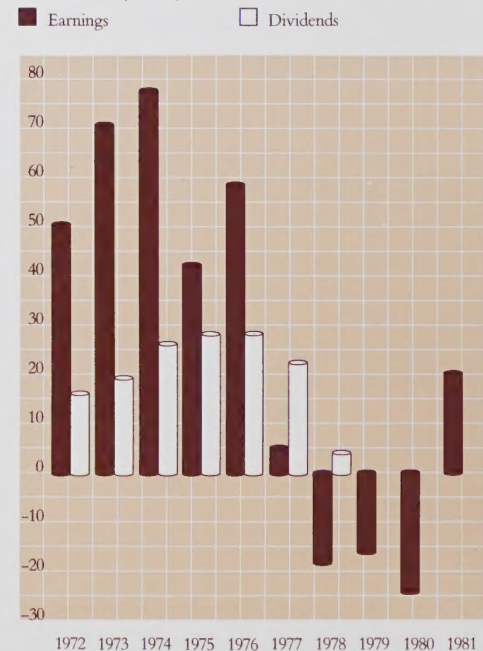
NET SALES

(expressed in millions of dollars)



NET INCOME (LOSS) AND DIVIDENDS

(Per Class A & Class C shares adjusted to reflect subdivision of shares February 13/73)



Coincident with these efforts the economic climate for durable consumer goods, which includes carpeting, gradually showed signs of deterioration greater than that originally forecast. Losses on operations for the first quarter became a certainty. Product demand declined and price increases could not be implemented to offset rising costs.

Throughout the quarter discussions were taking place with principals of a Canadian company who had indicated an interest in investing in the Harding organization. While the results of these discussions were announced to shareholders and in press releases on December 15, 1981 and February 1, 1982 details relating to the outcome of the discussions are presented for your information.

As of January 29, 1982 Harding Carpets Limited purchased 100% of the shares of Laing International Products Limited, distributors of carpeting, vinyl and ceramic tile. This distributor was owned by L.H.H. & Sons International (Canada) Ltd. and the purchase price of \$2,170,731 based on book value, paid by Harding Carpets Limited, was in the form of Class D voting shares issued from Treasury by Harding to L.H.H. & Sons International (Canada) Ltd.

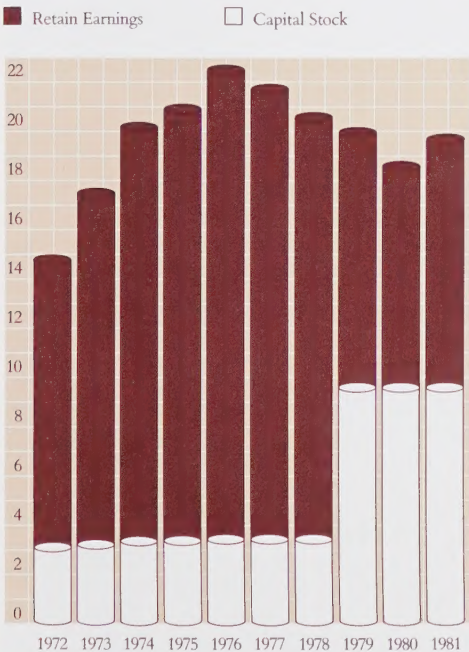
At the same time L.H.H. & Sons International (Canada) Ltd. undertook the purchase of additional Class D voting treasury shares of Harding Carpets Limited having an aggregate value of \$3,000,000 based on the book value of the shares at December 31, 1981, one half of which was paid for on closing with the balance payable on or before December 3, 1982. The book value of the shares was \$3.5877, this compares to a market value of the Class D shares on January 29, 1982 of \$1.95.

As of January 29, 1982 L.H.H. & Sons International (Canada) Ltd. became the holders of 38.8% of the voting shares of the corporation. When the balance of the treasury shares have been subscribed for the percentage of voting stock held by that company will be approximately 47.2%.

A meeting of the Board of Directors was held immediately following the foregoing transactions on February 2, 1982 at which time resignations and appointments were such that the ongoing members of the Board are those listed in the inside front cover of this report.

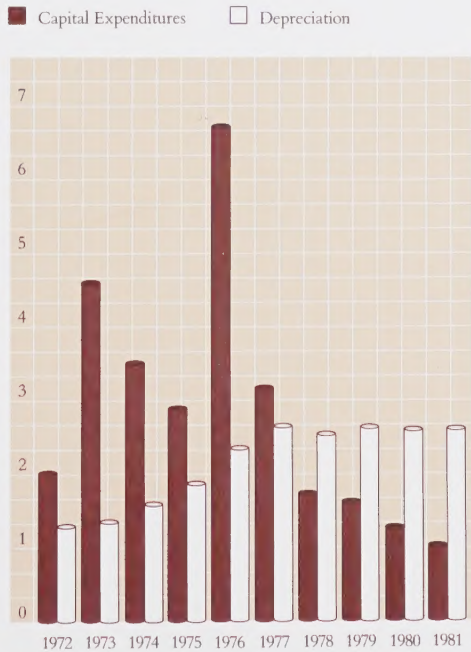
SHAREHOLDERS' EQUITY

(expressed in millions of dollars)



CAPITAL EXPENDITURES AND DEPRECIATION

(expressed in millions of dollars)



At the same time H.H. Loy became Chairman of the Board and Chief Executive Officer and W.T. Bodenhamer was appointed President and Chief Operating Officer. A.F. Griffiths continued as Vice-Chairman. K.K. Chong was appointed Executive Vice-President and J.H. Laing, Senior Vice-President, Distribution Sales.

The newly appointed Chief Executive and Chief Operating Officers will be responsible for the direction of the Company in the

future, hence the division of this years' report into two sections. The first section entitled "The Year In Review" is issued as of January 29th, 1982 by the Chairman and President of the company at that time. The second section, entitled "The Outlook", is presented by the ongoing President and Chief Operating Officer, W.T. Bodenhamer.

The Board wishes to express, on behalf of the shareholders, its sincere appreciation to

all employees for their contribution and their confidence throughout the year.

The annual meeting of shareholders will be held on Thursday, April 22, 1982 at 10:30 a.m. at the Executive Offices of the Company at 35 Worcester Road, Rexdale, Ontario. At that time the shareholders will have an opportunity to meet the new officers and to review with them the affairs of the Company.

On behalf of the Board,

C. Malim Harding

C. Malim Harding
Chairman of the Board

A.F. Griffiths

A.F. Griffiths
Vice Chairman and President
January 29th, 1982

QUARTERLY REVIEW						
(thousands, except per share, quarterly data unaudited)						
Quarter	Sales		Net Profit (Loss)		Per Share	
	1981	1980	1981	1980	1981	1980
1	\$ 22,131	\$19,440	\$ 305	\$ (392)	\$.06	\$(.08)
2	25,195	19,640	85	(722)	.01	(.14)
3	25,460	21,469	92	(550)	.02	(.11)
4	28,091	27,383	568	445	.11	.09
Total	\$100,877	\$87,932	\$1,050	\$(1,219)	\$.20	\$(.24)



1. A custom contract carpeting is being examined, as it leaves printing equipment in the Brantford plant, by E.N. Lutterloh, Vice-President, Manufacturing.

2. The sample print of a new design being produced is being considered by a laboratory technician in the Product Development & Styling Department.

3. Peter J. LePage, Mill Contract Sales Manager and Dennis C. Allen, Regional Manager, are shown discussing the presentation of a current product line.

4. Barry Husk, Director, Manufacturing & Development of the Venture Carpet plant in Drummondville, checks yarn produced to achieve a distinctive colourization in tufted carpets.

CANADIAN MARKET Estimated

	Total Square Yds. Canadian Market (000's)	Percentage of Total Supplied by Canadian Mills	Consumption in Square Yards			
			Canada		U.S.A.	
			Per Household	Per Capita	Per Household	Per Capita
1971	47,720	90.1	8.26	2.21	10.89	3.41
1972	65,358	89.2	10.70	3.00	13.31	4.25
1973	79,467	87.9	12.68	3.60	13.98	4.54
1974	87,995	86.6	13.55	3.92	12.51	4.13
1975	88,479	86.1	13.20	3.88	10.53	3.61
1976	91,631	86.2	13.25	3.99	11.89	4.03
1977	93,892	90.3	13.19	4.04	12.80	4.38
1978	93,362	93.4	12.75	3.98	13.30	4.58
1979	97,337	94.5	12.88	4.11	14.29	5.02
1980	86,112	95.1	11.03	3.60	12.87	4.44
% Increase						
1971-1980	180.4	5.5	133.5	162.9	118.2	130.2

Exports and Automotive Carpet have been excluded. Adjustments from previous reports have been made in accordance with latest available information.



The Outlook

The outlook for the current year for the carpet industry in Canada is not bright. The major negative influences are:

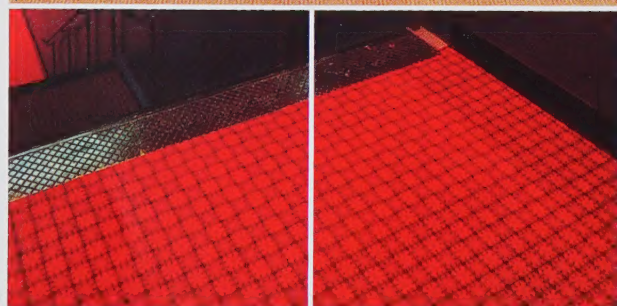
- the low rate of housing and commercial construction
- continuing high rates of interest
- a squeeze on consumer disposable income
- substantial excess capacity in the industry
- growing foreign imports

Purchases of carpets by consumers can be deferred in tight economic circumstances and this is undoubtedly a factor in the softening demand. At the same time, excess capacity in the industry and foreign competition have not enabled the company to increase prices to maintain or improve margins. All of the foregoing influences have combined to produce a substantial loss in the first quarter. The Company is continuing to reduce costs by streamlining operations and utilizing capital more efficiently. Despite the present unfavourable economic conditions, substantial funds are being invested in the plants on projects which reduce costs, upgrade quality and

generally improve productivity. With the acquisition of Laing International, the Company is rationalizing distribution facilities and in due course, will substantially increase its utilization of capital employed in distribution operations.

Harding is the strongest brand name in the business and the Company intends to build on this base through its own distribution network. The acquisition of the Laing companies adds further dimensions to Harding, through providing additional products, such as vinyl flooring and ceramic tiles, expanded distribution strength and good complimentary management.

At the same time, the Company intends to place increasing emphasis on developing business in the private label and contract segments of the market, where Harding has not attained acceptable market share. Additionally, the Company is placing substantial resources on developing export business to countries in the Pacific Rim. A major step in this plan was attained by the acquisition of the Laing companies, which



include a majority interest in a distribution subsidiary operating in Malaysia. Harding traditionally has held an important position in the Australian market, which will be developed more aggressively.

Management views the current economic cycle as a period during which to consolidate, improve operations and asset management so that the Company will be well positioned to return to substantial profit levels in the future. With the acquisition of the Laing companies and the infusion of new equity capital at book value, the Company is in a strong position to weather the present adverse economic conditions and to prepare to meet future opportunities aggressively.

Sincerely,

W. T. Bodenhamer

W.T. Bodenhamer
President and Chief Operating Officer

March 4, 1982

1. Wheaton Hall

Advanced styling, excellent resiliency and colouration make this cut pile carpet excellent for high traffic areas. Made of 100% nylon, for easy maintenance. Four contemporary colour choices are Design Dyed® for extra definition.

2 & 5. Club Check

These are fine examples of a Design Dyed® level loop which is suitable for any heavy traffic area. Constructed of Antron nylon, it is highly soil resistant and easily maintained. Pictured here, Club Check graces the lounge entrance and dining area of a prominent Toronto restaurant.

3. Going Places

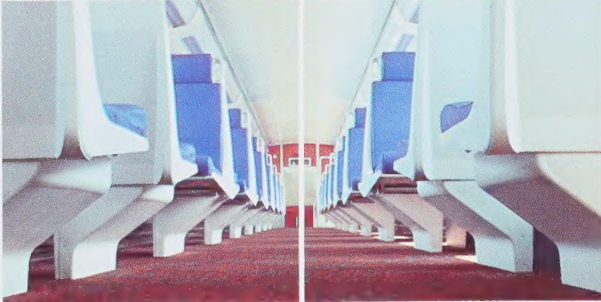
Harding has the technology to "Feather" colours, to achieve the finest multi-colour carpet on the market today. This beautiful cut and loop carpet satisfies the demand for rich colour tones with clarity and depth. Made of 100% B.C.F. nylon in nine stylish colours.

4. Natural Touch

Sculptured elegance, . . . naturally beautiful. The subtle marble pattern represents a new concept in carpet colouration. Made of Anso IV nylon, it offers built-in soil and stain protection. Available in nine handsome colours.

6. Designer's Gallery

Designer's Gallery (custom pattern) pictured here in the Ontario GO Trains (Toronto Area Transit Operating Authority) is highly soil resistant and easily maintained. This Design Dyed® level loop Antron has been performing beautifully on the commuter trains for the past 6 years.



CONSOLIDATED
STATEMENT OF INCOME
AND RETAINED
EARNINGS

	For the Year ended October 31, 1981	For the Year ended October 31, 1980
Sales	\$100,877,579	\$87,932,151
Cost of Sales	79,508,025	71,759,111
Gross profit from operations	21,369,554	16,173,040
Deduct the following items:		
Selling, administrative and distribution expense	16,086,851	14,560,614
Interest on long-term debt	1,256,066	1,340,533
Other interest	2,124,104	1,068,493
	19,467,021	16,969,640
Income (loss) before income taxes and other items	1,902,533	(796,600)
Income taxes (Note 10):		
Current	385,121	180,622
Deferred	59,113	(720,145)
	444,234	(539,523)
Income (loss) before preference dividends and extraordinary item	1,458,299	(257,077)
Preference dividends	1,253,649	1,031,016
Income (loss) before extraordinary item	204,650	(1,288,093)
Extraordinary item:		
Gain on sale of properties less related income taxes of \$275,950 (1980 - \$31,928)	845,449	69,142
Net income (loss) for the year applicable to Class A, B, C and D shares	1,050,099	(1,218,951)
Retained earnings at beginning of year	8,937,519	10,156,470
Retained earnings at end of year	\$ 9,987,618	8,937,519
Earning (loss) per share:		
Before extraordinary item	\$.04	\$ (.25)
After extraordinary item	\$.20	\$ (.24)

Harding Carpets Limited

CONSOLIDATED BALANCE SHEET

	October 31, 1981	October 31, 1980
ASSETS		
Current assets:		
Accounts receivable, less allowance for doubtful accounts	\$23,657,083	\$23,708,675
Inventories (Note 2)	25,036,423	20,823,138
Prepaid expenses	1,165,256	1,183,228
Total current assets:	49,858,762	45,715,041
Fixed assets, (Note 3):		
Land, buildings and equipment	41,391,572	41,423,174
Less: Accumulated depreciation	22,219,801	20,073,794
	19,171,771	21,349,380
	\$69,030,533	\$67,064,421
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank advances (Note 6)	\$11,591,490	\$ 8,950,461
Accounts payable and accrued liabilities	11,013,292	11,488,680
Income taxes payable	271,840	113,151
Instalments on long-term debt due within one year	870,000	890,000
Total current liabilities	23,746,622	21,442,292
Long-term debt (Note 5)	11,215,000	12,825,000
Obligations under capitalized leases (Note 4)	556,220	664,375
Deferred Income Taxes	2,182,723	1,893,560
Term preference shares (Note 6)	12,000,000	12,000,000
Shareholders' equity:		
Capital stock (Notes 7 and 8)	9,342,350	9,301,675
Retained earnings	9,987,618	8,937,519
	19,329,968	18,239,194
	\$69,030,533	\$67,064,421

Approved by the Board:

C. M. Harding

Director

A. L. Humphreys

Director

CONSOLIDATED
STATEMENT OF CHANGES
IN FINANCIAL
POSITION

	For the Year ended October 31, 1981	For the Year ended October 31, 1980
Financial resources were provided by:		
Operations –		
Income (loss) for the year before preference dividends and extraordinary item	\$ 1,458,299	\$ (257,077)
Charges (credits) not involving current funds –		
Depreciation	2,544,165	2,522,672
Deferred income taxes	59,113	(720,145)
	4,061,577	1,545,450
Issue of Class A shares (Note 8)	40,675	19,023
Proceeds on disposal of fixed assets	1,699,117	2,643,087
Increase in obligations under long-term leases	—	664,375
	5,801,369	4,871,935
Financial resources were used for:		
Expenditures on fixed assets	990,174	1,237,738
Preference dividends	1,253,649	1,031,016
Reduction in long-term debt	1,610,000	890,000
Reduction of obligation under capitalized leases	108,155	—
Capitalized long-term leases	—	787,885
	3,961,978	3,946,639
Increase in working capital	1,839,391	925,296
Working capital at beginning of year	24,272,749	23,347,453
Working capital at end of year	\$26,112,140	\$24,272,749

AUDITORS' REPORT

To the Shareholders of Harding Carpets Limited:

We have examined the consolidated balance sheet of Harding Carpets Limited as at October 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at October 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Toronto, Ontario
Chartered Accountants December 12, 1981

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31, 1981

1. Accounting policies:

(a) Principles of consolidation – The consolidated financial statements include the accounts of Harding Carpets Limited and its subsidiaries, all of which are wholly-owned.

(b) Inventories – Inventories of raw materials and goods in process are valued at the lower of average cost and replacement cost and inventories of finished goods at the lower of average cost and net realizable value.

(c) Fixed assets and depreciation – Fixed assets are stated at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the depreciable assets at rates of 2½% for buildings and 9% for machinery and equipment.

(d) Equipment under capitalized leases – Leases of Computer equipment are classified as capitalized leases from inception. An asset and an obligation have been recorded for an amount equal to the fair value of the equipment at the beginning of such leases which are amortized over a six year period.

(e) Income taxes – Deferred taxes arise as a result of claiming capital cost allowances for tax purposes in excess of depreciation recorded in the accounts. Federal investment tax credits are recognized as a reduction of income taxes when realized.

(f) Earnings per share – Earnings per Class A, B, C and D shares are calculated by dividing net income less preference dividends by the weighted monthly average of the number of shares outstanding during the year.

2. Inventories:

	1981	1980
Raw materials	\$ 1,779,226	\$ 2,486,752
Goods in process	7,228,954	6,180,889
Finished goods	16,028,243	12,155,497
	\$25,036,423	\$20,823,138

3. Fixed assets:

	1981		1980	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 312,025	\$ —	\$ 397,167	\$ —
Buildings	12,791,081	3,858,241	13,349,302	3,702,564
Machinery and equipment	27,500,581	18,186,472	26,888,820	16,327,458
Equipment under capitalized leases	787,885	175,088	787,885	43,772
	\$41,391,572	\$22,219,801	\$41,423,174	\$20,073,794

4. Obligations under capitalized leases:

	1981	1980
Computer and related software	\$931,847	\$1,131,528
Less: Amount representing interest	270,855	380,675
	660,992	750,853
Less: Current Portion	104,772	86,478
	\$556,220	\$ 664,375

The interest rate implicit in the lease is the bank's rate for banker's acceptances plus 1 3/4%. Principal and interest payments aggregating \$199,681 are payable in each of the years 1982 to 1985 and \$133,123 in 1986.

5. Long-term debt:

	1981	1980
(a) Secured by a floating charge in favour of the debenture holders.		
Series A, 6% due 1984	\$1,136,000	\$1,400,000
Series B, 6 7/8% due 1987	999,000	1,161,000
Series C, 8 5/8% due 1992	1,945,000	2,181,000
Series D, 10 1/4% due 1994	4,088,000	4,551,000
Series E, 11 3/8% due 1994	3,917,000	4,362,000
	12,085,000	13,655,000
(b) 8% mortgage of a subsidiary	—	60,000
	12,085,000	13,715,000
Less: Instalments due within one year	870,000	890,000
	\$11,215,000	\$12,825,000

(c) The Trust Indentures underlying the outstanding debentures contain covenants which place limitations on the payment of dividends on Class A, B, C and D shares. There were no consolidated retained earnings free from restriction as of October 31, 1981. Elimination of this restriction will be dependent upon future earnings.

(d) Long-term debt instalments in the aggregate of \$870,000 are payable in each of the years 1982 and 1983, \$1,406,000 in fiscal 1984 and \$670,000 in fiscal 1985 and 1986.

6. Term preference shares and bank advances:

	Shares	Value
Authorized –		
Preference shares with a par value of \$25.00 each, issuable in series	1,000,000	
Issued and outstanding –		
Series A preference shares	480,000	\$12,000,000

The Series A shares held by two Canadian banks have a cumulative floating rate dividend equal to one-half of the bank's prime rate plus 1 3/8 percent. The shares must be redeemed by the Corporation at their par value plus all accrued and unpaid dividends by September 30, 1984 and may be redeemed earlier by the Corporation if certain conditions relating to source of funds are met.

The preference shares are non-voting except at meetings relating to the liquidation, winding up, or other distribution of the assets of the Corporation.

The preference share subscription agreement contains a number of restrictive covenants relating to the payment of dividends, shareholders' equity and working capital levels, working capital ratios and the general financial condition of the Corporation. While the Corporation is not able to meet certain of the tests under these covenants, such tests have been waived to January 31, 1982 by the banks.

The term preference shares together with the bank advances are secured by the assignment of the Corporation's accounts receivable and inventory.

7. Capital stock:

Authorized –	Shares
Class A and Class B non-voting interconvertible shares without par value	6,000,000
Class C and Class D voting interconvertible shares without par value	2,999,000
Common shares without par value	1,000
	9,000,000

Issued and outstanding –	1981		1980	
	Shares	Amount	Shares	Amount
Class A and Class B non-voting interconvertible shares without par value	3,570,870	\$6,345,041	3,550,920	\$6,304,366
Class C and Class D voting interconvertible shares without par value	1,612,472	2,997,309	1,612,472	2,997,309
	5,183,342	\$9,342,350	5,163,392	\$9,301,675

8. Stock options:

Options for 19,950 Class A shares were exercised during the year ended October 31, 1981 for a cash consideration of \$40,675.

Options for 53,625 Class A shares and 133,400 Class C shares were granted during the year.

As at October 31, 1981 there were options outstanding to employees and officers to purchase 190,625 Class A shares and 157,400 Class C shares at prices ranging from \$1.62 to \$2.745 and expiring up to 1986.

9. Pensions:

In 1948, the Corporation introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. The Plan is contributory and the liability for past service is fully funded.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trustee plan which is paid for completely by the Corporation and has to date been invested mainly in the shares of Harding Carpets Limited.

Since 1948, net pension and profit sharing contributions have been as follows:

	Company net contributions	Employee net contributions
Employees' Pension Plans	\$4,385,722	\$3,934,941
Canada Pension and Quebec Pension Plan	2,434,995	2,434,995
Deferred Profit Sharing Plan	528,202	—
	\$7,348,919	\$6,369,936

The cost to the Corporation of the Pension Plans in 1981 was \$536,546, (1980 – \$514,612). No contributions were made to the Deferred Profit Sharing Plan in either year.

10. Income taxes:

At October 31, 1981, the Corporation has approximately \$260,000 of unrecorded investment tax credits available to reduce future income taxes payable. Such credits expire in the years 1982 to 1986.

11. Segmented information:

The Corporation operates in one segment only manufacturing carpeting and selling its products together with related accessories through corporation owned distribution centres and other distributors.

12. Subsequent event:

On December 12, 1981 the Corporation agreed, subject to the fulfillment of certain terms and conditions, to purchase from L.H.H. and Sons International (Canada) Limited (L.H.H.) all of the shares of Laing International Products Limited, distributors of carpet, vinyl and ceramic tile, at their net book value as of December 31, 1981. The purchase price is estimated to be \$2,000,000 and will be satisfied by the issuance from treasury of Class C or D shares of the Corporation at their net book value as of December 31, 1981.

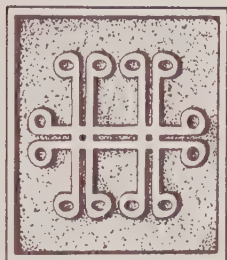
The agreement also provides that L.H.H. will purchase additional Class C or D treasury shares of the Corporation for \$3,000,000 cash, based on their net book value as of December 31, 1981, one half of which will be paid on closing on or before January 29, 1982 and the balance on or before December 3, 1982.

TEN YEAR FINANCIAL SUMMARY (000's omitted)

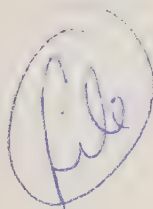
Year ended October 31

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Operating Results										
Sales	\$100,878	\$87,932	\$76,456	\$73,710	\$73,034	\$74,573	\$58,748	\$57,339	\$47,683	\$40,076
Depreciation	2,544	2,523	2,560	2,480	2,583	2,284	1,816	1,566	1,311	1,253
Interest	3,380	2,409	2,088	2,968	2,963	2,674	1,580	1,422	876	761
Income before taxes	1,903	(797)	(501)	(3,079)	48	4,810	3,681	6,832	6,313	4,706
Income taxes	444	(540)	(448)	(1,659)	(212)	1,846	1,552	2,907	2,774	2,195
Preference Dividends	(1,254)	(1,031)	(713)	—	—	—	—	—	—	—
Extraordinary Income	845	69	(58)	505	—	—	—	—	—	—
Net Income	\$ 1,050	\$ (1,219)	\$ (824)	\$ (915)	\$ 260	\$ 2,964	\$ 2,129	\$ 3,925	\$ 3,539	\$ 2,511
Per share	\$.20	\$ (.24)	\$ (.16)	\$ (.18)	\$.05	\$.58	\$.42	\$.77	\$.70	\$.50
As a percentage of sales	1.0%	(1.4)%	(1.1)%	(1.2)%	.4%	4.0%	3.6%	6.8%	7.4%	6.3%
As a percentage of capital employed	4.4%	(1.6)%	(1.7)%	(.4)%	2.7%	9.9%	7.5%	15.7%	15.2%	13.4%
As a percentage of shareholders' equity	5.8%	(6.3)%	(4.1)%	(4.3)%	1.2%	14.4%	10.8%	22.9%	24.5%	20.7%
Dividends Paid on Class A, B, C and D Shares	\$ —	\$ —	\$ —	\$ 204	\$ 1,109	\$ 1,446	\$ 1,420	\$ 1,329	\$ 960	\$ 796
Per share	\$ —	\$ —	\$ —	\$.04	\$.22	\$.28	\$.28	\$.26	\$.19	\$.16
Other Financial Data										
Capital expenditures	\$ 990	\$ 1,238	\$ 1,585	\$ 1,694	\$ 3,092	\$ 6,616	\$ 2,822	\$ 3,447	\$ 4,534	\$ 1,923
Working capital	26,112	24,273	23,347	12,634	14,933	18,165	15,525	19,227	11,875	12,086
Ratio of current assets to current liabilities	2.1 to 1	2.1 to 1	2.5 to 1	1.5 to 1	1.7 to 1	1.8 to 1	1.7 to 1	2.7 to 1	1.9 to 1	2.5 to 1
Inventories	\$ 25,036	\$20,823	\$18,595	\$15,237	\$18,251	\$22,126	\$16,433	\$16,617	\$13,175	\$10,606
Fixed assets (net)	19,172	21,349	24,388	26,429	27,824	27,504	23,452	17,933	16,223	13,227
Long-term debt	11,215	12,825	13,715	15,525	16,440	17,430	13,134	13,215	7,645	8,075
Shareholders Equity	\$ 19,330	\$18,239	\$19,439	\$20,179	\$21,272	\$22,106	\$20,538	\$19,766	\$17,113	\$14,427
Shareholders equity per share	\$ 3.73	\$ 3.53	\$ 3.78	\$ 3.94	\$ 4.16	\$ 4.33	\$ 4.03	\$ 3.89	\$ 3.38	\$ 2.86

AR01



HARDING CARPETS LIMITED



SEMI - ANNUAL REPORT
period ended April 30, 1981

TO SHAREHOLDERS:

We are pleased to report a profit for the quarter ended April 30, 1981, which is the third consecutive profitable quarter. This is of some significance as strikes interrupted operations at both the Drummondville and Collingwood plants and had an adverse impact on earnings.

Sales of \$25,195,430 for the quarter ended April 30, 1981 reflect an increase of 28% over the corresponding period last year. A profit of \$84,839 or 1.6¢ per share after preference dividends compares to a loss of \$722,302 or 14.0¢ per share for the same period one year ago.

For the six month period, sales of \$47,326,730 increased 21% over the same period last year. A profit of \$157,466 or 3.0¢ per share after preference dividends and before extraordinary items compares to a loss of \$1,184,474 or 22.9¢ per share for the six month period last year.

Gross profit from operations for both the quarter and the six month period improved significantly over the last year reflecting both a stronger product line and an improved sales mix. Selling, administration and distribution expenses increased in absolute terms but were also significantly lower as a percent of sales. Emphasis continues on productivity improvement throughout the company especially in manufacturing.

Demand for carpet in Canada has stabilized somewhat since our last report however high interest rates and a high level of inflation are having a dampening effect on consumer spending which continues sluggish. Demand from most export markets has softened and pricing has become very competitive.

In our previous report to shareholders we viewed the balance of 1981 cautiously but with measured optimism. This outlook continues based on the continued profitability of our last quarter.

ON BEHALF OF THE BOARD,



C.M. Harding,
Chairman



S.R. Peszat,
President and Chief Executive Officer

June 5, 1981

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Three Months Ended	
	April 30 1981	April 30 1980
SALES	\$25,195,430	\$19,640,411
COST OF SALES	<u>20,114,718</u>	<u>16,621,796</u>
GROSS PROFIT from operations	5,080,712	3,018,615
DEDUCT the following items:		
Selling, administrative and distribution expense	3,646,946	3,376,703
Interest on long-term debt	328,871	335,184
Other interest	<u>440,170</u>	<u>282,541</u>
	4,415,987	3,994,428
PROFIT (LOSS) before income taxes and other items	664,725	(975,813)
PROVISION for (RECOVERY of) income taxes	<u>266,574</u>	<u>(448,991)</u>
PROFIT (LOSS) before dividends and extraordinary items	398,151	(526,822)
Dividend requirements on preference shares	<u>313,312</u>	<u>265,780</u>
	84,839	(792,602)
EXTRAORDINARY ITEM — Gain on sales of property, less related taxes of \$29,944	<u>—</u>	<u>70,300</u>
NET PROFIT (LOSS) for the period applicable to Class A, B, C & D shares	<u>\$ 84,839</u>	<u>\$ (722,302)</u>
PROFIT (LOSS) per share		
Before extraordinary item	1.6¢	(15.4¢)
After extraordinary item	1.6¢	(14.0¢)
	Six Months Ended	
	April 30 1981	April 30 1980
SALES	\$47,326,730	\$39,080,773
COST OF SALES	<u>37,420,910</u>	<u>32,480,493</u>
GROSS PROFIT from operations	9,905,820	6,600,280
DEDUCT the following items:		
Selling, administrative and distribution expense	7,452,008	6,745,988
Interest on long-term debt	649,154	670,467
Other interest	<u>762,993</u>	<u>470,341</u>
	8,864,155	7,886,796
PROFIT (LOSS) before income taxes and other items	1,041,665	(1,286,516)
PROVISION for (RECOVERY of) income taxes	<u>321,311</u>	<u>(626,430)</u>
PROFIT (LOSS) before dividends and extraordinary items	720,354	(660,086)
Dividend requirements on preference shares	<u>562,888</u>	<u>524,388</u>
	157,466	(1,184,474)
EXTRAORDINARY ITEM — Gain on sales of property, less related taxes of — 1981 \$109,362 1980 \$29,944	<u>233,000</u>	<u>70,300</u>
NET PROFIT (LOSS) for the period applicable to Class A, B, C & D shares	<u>\$ 390,466</u>	<u>\$ (1,114,174)</u>
PROFIT (LOSS) per share		
Before extraordinary item	3.0¢	(22.9¢)
After extraordinary item	7.6¢	(21.6¢)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

SIX MONTHS ENDED

April 30 1981	April 30 1980
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FINANCIAL RESOURCES WERE PROVIDED BY:

Operations —

Profit (Loss) for the period before dividends and extraordinary items	\$ 720,354	\$ (660,086)
Charges (credits) not involving current funds		
Depreciation and amortization	1,250,229	1,302,330
Deferred income taxes	43,916	(542,350)
	2,014,499	99,894

Issue of Capital Stock	6,002	19,022
Fixed asset disposals	480,096	2,494,377
Gain on sales of property	342,362	101,070
	\$ 2,842,959	\$ 2,714,363

FINANCIAL RESOURCES WERE USED FOR:

Expenditures on fixed assets	\$ 416,255	\$ 859,105
Dividend requirements on preference shares	562,888	524,388
Reduction in long-term debt	1,443,207	671,666
	2,422,350	2,055,159
Increase (decrease) in working capital	420,609	659,204
Working capital at beginning of period	24,272,749	23,347,453
Working capital at end of period	\$24,693,358	\$24,006,657

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

(Non-vérifié)

Semestre clos le			
30 avril	1981	30 avril	1980
LES RESSOURCES FINANCIÈRES DÉCOULENT DE:			
Exploitation —			
Profit (Perte) pour la période avant paiement			
de dividendes et postes extraordinaires			
\$	720,354	\$	(660,086)
Frais (crédits) n'affectant pas le fonds de roulement:			
Amortissements			
Impôts différés sur le revenu			
	1,250,229		1,302,330
	43,916		(542,350)
	2,014,499		99,894
Emission de capital-actions			
Liquidation d'immobilisations			
Gain à la suite de la vente d'une propriété			
	6,002		19,022
	480,096		2,494,377
	342,362		101,070
\$	2,842,959	\$	2,714,363
LES RESSOURCES FINANCIÈRES ONT			
ÉTÉ UTILISÉES POUR:			
Dépenses en immobilisations			
Somme nécessaire au paiement des dividendes			
sur les actions privilégiées			
Diminution de la dette à long terme			
Augmentation (diminution) du fonds de			
roulement			
Fonds de roulement au début de la période			
	420,609		659,204
	24,272,749		23,347,453
\$24,693,358		\$24,006,657	

(Non-vérité)

Trimestre clos le		Semestre clos le		Trimestre clos le	
30 avril 1980	30 avril 1981	30 avril 1980	30 avril 1981	30 avril 1980	30 avril 1981
\$25,195,430	\$19,640,411	\$39,080,773	\$47,326,730	\$70,300	\$84,839
COÛT DES VENTES		COÛT DES VENTES			
PROFIT BRUT d'exploitation	20,114,718	9,905,820	37,420,910	—	313,312
À DÉDUIRE :					
Frais de ventes, de gestion et de distribution	3,646,946	7,452,008	6,745,988		398,151
Intérêts sur dette à long terme	328,871	649,154	670,467		265,780
Intérêts divers	440,170	762,993	470,341		266,574
PROFIT (PERTE) avant impôts sur le revenu et autres postes	4,415,987	8,864,155	7,886,796		664,725
PROVISION pour (DÉGREVEMENT) impôts sur le revenu	266,574				(975,813)
PROFIT (PERTE) avant paiement de dividendes et postes extraordinaires	398,151				(448,991)
Somme nécessaire au paiement des dividendes	313,312				(526,822)
sur les actions privilégiées					265,780
POSTE EXTRAORDINAIRE —					(792,602)
Gain réalisé à la vente d'une propriété					84,839
après impôts sur le revenu de \$29,944					
PROFIT NET (PERTE) pour la période imputable sur les actions de classe A, B, C et D					\$ (722,302)
PROFIT (PERTE) par action					\$ 84,839
Avant poste extraordinaire					
Après poste extraordinaire					1.66
					(15.4c)
					(14.0c)
Semestre clos le					
30 avril 1980	30 avril 1981	30 avril 1980	30 avril 1981	30 avril 1980	30 avril 1981
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Gain réalisé à la vente d'une propriété					84,839
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Somme nécessaire au paiement des dividendes	313,312				(526,822)
sur les actions privilégiées					265,780
POSTE EXTRAORDINAIRE —					(792,602)
Gain réalisé à la vente d'une propriété					84,839
après impôts sur le revenu de \$29,944					
PROFIT NET (PERTE) pour la période imputable sur les actions de classe A, B, C et D					

AUX ACTIONNAIRES:

Nous avons le plaisir d'annoncer un profit pour le trimestre qui a pris fin le 30 avril 1981, le troisième trimestre consécutif au cours duquel nous avons réalisé des bénéfices. De tels résultats sont vraiment significatifs, tenant compte du fait que des grèves ont interrompu l'exploitation à notre usine de Drummondville et à celle de Collingwood ce qui a eu un effet défavorable sur le revenu.

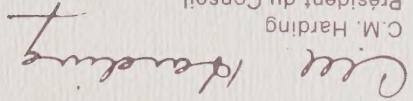
Les ventes du trimestre, qui a pris fin le 30 avril 1981, ont été de \$25,195,430 et reflètent une augmentation de 28 p. cent par rapport à celles de la même période de l'an dernier. Un profit de \$84,839 ou de 1.6¢ par action a été enregistré, après paiement de dividendes sur les actions privilégiées, comparativement à une perte de \$772,302 ou de 14.0¢ par action pour la même période de l'an dernier. Pour la période de six mois, les ventes se sont élevées à \$47,326,730 et ont augmenté de 21 p. cent par rapport à celles de la même période l'an dernier. Un profit de \$157,466 ou de 3.0¢ par action a été enregistré, après paiement de dividendes sur les actions privilégiées et avant les postes extraordinaires, comparativement à une perte de \$1,184,474 ou de 22.9¢ par action pour la période de six mois de l'an dernier.

Le profit brut d'exploitation, pour le trimestre autant que pour la période de six mois, s'est sensiblement amélioré par rapport à l'an dernier, grâce à une plus grande popularité et à un meilleur assortiment de nos produits. Strictement parlant, les frais de ventes, de gestion et de distribution ont augmenté mais ils ont aussi été sensiblement inférieurs à ceux de l'an dernier au point de vue pourcentage par rapport aux ventes. Une importance toute particulière continue d'être accordée à l'amélioration du rendement de toute la société, plus spécialement dans le domaine de la fabrication.

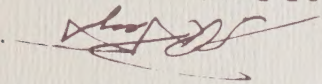
La demande de tapis au Canada s'est quelque peu stabilisée depuis notre dernier rapport; cependant, les taux d'intérêt élevés et le niveau d'inflation croissant entraînent une diminution des achats des consommateurs. La requête de tapis de presque tous les marchés d'exportation est moins forte et les prix sont devenus très compétitifs.

Tel que mentionné dans notre rapport antérieur aux actionnaires, nous continuons d'envisager le reste de l'année avec prudence, mais avec une certaine dose d'optimisme. Ceci est dû aux bénéfices que nous avons réalisés pour le dernier trimestre.

AU NOM DU CONSEIL D'ADMINISTRATION,


C.M. Harding

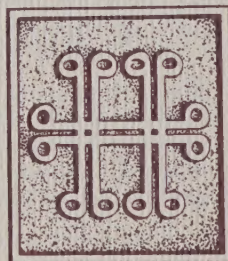
Président du Conseil


S.R. Peszat

Président et chef de la direction

Le 5 juin 1981

LES TAPIS HARDING LIMITEE



RAPPORT SEMESTRIEL
Période terminée
le 30 avril 1981